

First Person

Confessions of a CSR Champion

It's time to rethink the "C" in CSR

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ARE CSR'S BEST DAYS BEHIND US?

If the number of CSR (corporate social responsibility) conferences, company social reports, standards, norms, principles, and CEO pronouncements is any indicator, then the answer is no: The field is thriving. But if you believe observers like Robert Reich (*Supercapitalism*) and David Vogel (*The Market for Virtue*), then you'll say that the question is moot; that what most call CSR is, and always has been, nothing more than smart management.

What do I, a CSR champion, believe? After laboring for more than two decades in the field, I feel both gratified by the steady change in the CSR practices of a few leading companies and disheartened by the slow pace and shallowness of change among the tens of thousands of companies for which CSR remains unknown or unwelcome. So I have to say that yes, CSR's best days are behind us. More specifically, CSR as currently defined is peaking because it focuses on symptoms rather than root causes of responsible behavior.

To move into the next chapter of CSR, we must focus on the forgotten "C" in "CSR," that is, redefine the corporation itself.

The first step is questioning the corporation's purpose. This means abandoning the prevailing notion that shareholder value is the core purpose of a company. We must instead imagine the corporation as it was two centuries ago, an entity authorized by the government to harness private interests—innovation, competitiveness, wealth creation—to serve the public interest. Public interest can mean job creation, beneficial technology, or community building. A broad-based public inquiry on corporate purpose could iron out the specifics.

Next, we should revise federal and state laws so that they mandate including non-shareholder interests when defining directors' fiduciary duties. Ahead of that game is California's proposed Business Leadership and Innovation Statute (AB 2944), which allows directors to take into account the environment, their employees, and their community when executing their duties. Removing the threat of shareholder lawsuits for such behavior is critical to unleashing and nurturing corporate directors' social consciousness.

Next on our list: governance. Shareholder interests excessively influence company decisions, a situation incompatible with how wealth is actually created—namely, through the joint and inseparable contributions of employees, communities, suppliers, and government. We must revamp corporate governance to reflect this reality, creating board appointments, stakeholder councils with real clout, and other



governance arrangements that diminish the disproportionate influence of capital providers in company decision making.

Rewards and incentives are also ripe for change. Short-termism—valuing immediate returns at the expense of long-term wealth creation—runs rampant in today's corporations, owing in part to out-sized rewards such as stock options and bonuses for meeting quarterly Wall Street expectations. The corrosive effects of such conditions are evident in the "choreographing" of earnings at the expense of long-term investment in human capital and research and development. We need to tame the forces of short-termism with rewards and incentives tied to sustainability performance.

Last, we must rethink ownership structures. The notion of the company as the property of passive, remote, and transient shareholders is anathema to creating a culture of social responsibility. We should encourage ownership structures that align with the concept of the public interest. Already, many of the thousands of cooperatively and employee-owned companies operate in this mode.

Of course, steps like these require that we directly confront many accepted wisdoms about the purpose and nature of corporations. Indeed, today's financial crisis offers a chance to do just that, and the perils and opportunities of globalization require nothing

less. If the incremental progress of contemporary CSR were the answer to strengthening companies' contributions to sustainable development, we would not be witnessing biodiversity loss, climate change, income disparities, and other global threats. ■

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